

GENERAL FUND MAJOR REVENUE CHANGES

2003-2004 Compared to 2001-2002

SUMMARY

Although the economic recession of 2001-2002 is by most accounts considered ended, the damage to business confidence and spending continues. Although consumers have been credited with keeping the economic recession from being deeper and longer than what could have occurred, consumer confidence continues to be battered by reports of a weak labor market and a pronounced lack of spending and investment by businesses. All this is expected to result in a very modest and slow recovery. Nationally, a recovery is not expected to occur until early 2004 with a corresponding recovery in the local economy not expected until late 2004.

With this economic backdrop, General Fund revenues for 2003-2004 are expected to be 6.3% less than 2001-2002 budgeted levels, including the beginning fund balance. This decline is seen most notably in the City's two largest and most economically sensitive revenue sources: sales taxes and development revenues. Sales taxes are estimated to decline by 7.4% from 2001-2002 budgeted levels and development revenues are estimated to decline by 15%.

New businesses:

Between the summer of 2002 and 2004, the City is expecting the addition of five major businesses. These include the Home Depot, Fred Meyer, Cost Plus Imports, the Bon Marche and a new Marriott Hotel. The addition of these five businesses is expected to help stabilize the City's sales and hotel/motel tax base beginning in late 2002.

3% technology surcharge:

The City is recommending continuing this surcharge through 2003-2004 to pay for technological improvements related to development review. Please refer to the development revenue highlights included later in this section for further detail.

Fire Code Permit Fees:

A new fee is introduced in the 2003-2004 budget to recover the costs incurred by the Fire Department to inspect facilities that store chemicals and materials that are considered hazardous. This inspection is currently being performed but no fees are being assessed. Revenue from this new fee is estimated at \$100,000 per year.

City property tax levy and other tax rates:

No changes to the City's property tax levy or other tax rates are included in this budget.

BEGINNING CASH

Given the current economic weakness, the City is expected to end the 2001-2002 biennium at break even levels, meaning operating revenues will approximate operating expenditures. The General fund is expected to start the 2003-2004 biennium with no beginning fund balance.

SALES TAX (\$36.9 million; -\$2.9 million or 7.4% decline from 2001-2002 budget)

Collections from local retail sales taxes are the City's largest revenue source, representing approximately 33% of the General Fund budget. Retail sales tax collections are also the City's most economically sensitive revenue source since collections fluctuate directly with changes in the economy. As shown in the table below, from 1995 through 1999 this revenue source posted phenomenal growth for the City, increasing from \$25.63 million in 1995-1996 to \$34.30 million in 1999-2000, or an increase of 34% over this six-year period. During 2001-2002, revenue collections from sales taxes are forecasted to decline by 0.9% to \$33.99 million, which includes a one-time adjustment as a result of implementing Governmental Accounting Standards Board pronouncement #34 (GASB 34). This accounting change resulted in a one-time adjustment to 2001 sales taxes of \$1.6 million. Without this adjustment, sales taxes would have shown a decline of 6%. The decline in sales tax collections is attributable to several factors, including the downturn of the local economy as a result of major employment reductions by Boeing, a decline in business spending, and the general economic recession.

Biennium	Retail Sales Tax Collections in the City (in millions)	% Change
1995-1996	\$25.63	
1997-1998	\$27.69	8.0%
1999-2000	\$34.30	23.9%
2001-2002	\$33.99	(0.9%)
2003-2004	\$34.95	2.8%

For 2003-2004, sales tax revenues are forecasted to rebound modestly as the economy begins to improve and new retail establishments such as Home Depot and Fred Meyer post a full year of operations and the Bon Marche and Cost Plus Imports open in spring and summer of 2003, respectively.

Other sales tax-related revenues are distributions from King County to cities and towns to support criminal justice programs. Under a criminal justice funding package passed by the State in 1990, King County is authorized to distribute one-tenth of the 1% transit tax for local management of criminal justice programs. For the 2003-2004 biennium, this revenue source is budgeted at \$1.9 million, a 5% increase over 2001-2002 budgeted levels.

In 1997, Council directed that sales tax on construction be deposited directly into the Capital Investment Program (CIP). This allocation is in addition to the 5% CIP transfer of General Fund revenues. For the 2003-2004 biennium, continuation of this policy is assumed and \$1.1 million is budgeted as an annual transfer to the City's general CIP program.

Sales Tax – Revenue Source	1999-2000 Actual	2001-2002 Budget	2001-2002 Estimate	2003-2004 Budget
Retail sales taxes	34,390,211	38,001,703	33,994,015	34,950,000
Criminal Justice Distributions	1,753,924	1,842,641	1,835,000	1,940,000
Transfer to General Construction	(2,200,000)	(2,200,000)	(2,200,000)	(2,200,000)

PROPERTY TAX (\$20.1 million; \$1.6 million or 8.7% increase from 2001-2002 budget)

No property tax increase is assumed for 2003 or 2004. Under state law, the City may increase the property tax levy by 1% with a majority vote of Council. Property tax revenues for 2003-2004 are estimated to grow only by new construction which is estimated at \$400,000 annually.

Revenue Source	1999-2000 Actual	2001-2002 Budget	2001-2002 Estimate	2003-2004 Budget
Property taxes	16,743,784	18,476,000	18,566,000	20,076,000

UTILITY TAX (\$18.7 million; \$2.1 million or 13% increase from 2001-2002 budget)

The City levies a tax on utilities operating within City limits. Electric, telephone (includes local, long distance, and cellular), and natural gas companies pay a 5.5% tax on their gross revenues. In addition, the local garbage company is assessed a utility tax of 6% of gross revenues and the local cable television provider is assessed a franchise fee of 5% of gross revenues.

For the 2003-2004 budget, collections from utility taxes are budgeted at \$18.7 million, or \$2 million (12%) above 2001-2002 budgeted levels. This increase is attributable to two main factors: demand for mobile telecommunication services and the increase in natural gas rates assessed by Puget Sound Energy, the local provider of natural gas services.

Between 1999 and 2002, demand for mobile telecommunication services has increased dramatically as the cost for airtime declined and the assortment of services increased. In 2003-2004, increase in demand for mobile communication services is expected to moderate as the industry is faced with the challenge of converting the remaining potential customers who may be less swift to adopt wireless services. As a result, utility tax revenues from phone services are budgeted to increase moderately by an average 4.5% per year from the previous biennium.

The Washington State Utilities and Transportation Commission authorized a 6% rise in natural gas rates effective September 2002. For 2003-2004, utility tax revenues from natural gas services are budgeted to increase by an average 4.5% per year from the previous biennium.

The remaining utility taxes (electricity, garbage and cable TV) are anticipated to grow modestly over the previous biennium budgeted levels, coinciding with the general population increase.

Utility Tax – Revenue Source	1999-2000 Actual	2001-2002 Budget	2001-2002 Estimate	2003-2004 Budget
Electricity	6,015,168	6,971,948	6,495,000	7,394,000
Telephone	5,463,547	9,124,540	6,495,001	7,447,000
Natural Gas	1,570,455	1,569,950	1,831,000	1,998,000
Garbage Collection	935,060	1,056,985	881,000	921,000
Cable Television	688,750	882,613	830,000	904,000

DEVELOPMENT FEES (\$7.9 million; \$1.4 million or 15% decline over 2001-2002 budget)

This revenue source represents the fees assessed related to development activity in the City. As building development is related to changes in economic conditions, estimated revenues can fluctuate broadly from one year to the next. During 2001-2002, development activity within the City fell dramatically as business investments and spending declined in response to a weak national and regional economy. Development activity in the commercial sector is expected to remain weak throughout 2003-2004. For the 2003-2004 biennium, development revenues are expected to total \$7.9 million, or a decline of 3% from budgeted levels in the previous biennium.

Included in the 2003-2004 budget is the continuation of the 3% technology surcharge on all development-related fees. Revenues collected from these fees are dedicated for the development of several technology enhancements related to the development review function. For 2003-2004, these enhancements include completion of software upgrades for the Sierra permit tracking system, allowing users to access the status of their permits via the Internet and developing an interface between the City's permitting and Geographic Information Services (GIS) systems.

A new revenue source in 2003-2004 includes assessment of fees related to the current inspection of facilities that store chemicals and materials that are considered hazards. These inspection services are currently performed by the Fire Department but no fee is assessed to recover the cost of this function, unlike the practice of most jurisdictions. Starting in 2003, fees will be assessed to recoup the cost of providing these services and are expected to generate approximately \$100,000 per year. (See description in Business Case Analysis book.)

Development Fees – Revenue Source	1999-2000 Actual	2001-2002 Budget	2001-2002 Estimate	2003-2004 Budget
Commercial Building Permits	2,032,723	1,363,000	825,063	630,000
Multifamily Building Permits	89,020	378,000	580,000	600,000
Tenant Improvements Building Permits	1,118,094	1,300,000	480,000	480,000
Residential Building Permits	942,275	1,575,000	1,400,000	1,450,000
Mechanical/Electrical/Plumbing Permits	2,529,464	1,436,000	1,440,000	1,531,000
Fire Code Permit Fees	0	0	0	200,000
Building Inspection/Plan Review Fees	4,081,769	3,010,000	2,991,000	2,833,000
Technology Surcharge	0	270,000	190,000	190,000

INTERGOVERNMENTAL (\$16.9 million; \$1.6 million or 11% increase from 2001-2002 budget)

This revenue source includes all inter-governmental and intra-governmental transactions within the City and its partnering jurisdictions. For 2003-2004, revenues from this source are expected to total \$16.9 million as compared to 2001-2002 budgeted levels of \$15.3 million. Revenues can be categorized into several major areas as follows.

Fire and emergency services include revenues from several sources: contracted fire protection services, Emergency Medical Services (EMS) levy proceeds, and fire equipment maintenance agreements. The City has historically provided fire services to King County Fire District #34 under a long-standing contract. In 2001, the City entered into a new contract with Eastside Fire and Rescue for service to the City of Sammamish. Revenue estimates for 2003-2004 are based upon the methodology of splitting fire services as outlined in the current contract(s).

King County currently distributes revenue to the City of Redmond Emergency Medical Service for basic life support based on population, assessed value, and calls for service. For 2003-2004, the City's basic life support is expected to continue at \$800,000. Starting in 2003, the City will also receive a revenue allocation for Advanced Life Support (ALS) services of approximately \$3.3 million annually. This revenue along with the cost of the ALS program will be set up in a special revenue fund. This budget also includes the continuation in fire apparatus maintenance agreements with Mercer Island, and Bothell.

Overhead fees are charged to other City departments to recover the full cost of providing citywide administrative services in a manner consistent with City policy. These citywide services which are funded by the General Fund include personnel, administration, and financial services. For the 2003-2004 biennium, this category consists of \$4.8 million in payments primarily from the City's water/wastewater and stormwater utilities and the City's solid waste recycling program, with budgeted increases primarily due to higher salary and benefit costs.

State-shared revenues represent distributions by the State of Washington to the City from liquor sales/excise taxes, motor vehicle excise taxes, and motor vehicle fuel taxes. These revenue sources are considered entitlements from the State of Washington and are distributed on the basis of population estimates established by the State.

The State of Washington Liquor Control Board operates liquor stores throughout the State and collects taxes and profits from the sale of liquor to defray the local costs of policing liquor establishments. For the 2003-2004 biennium, growth from this revenue source is expected to continue and is estimated to total \$812,000, or an approximate annual increase of 4.5% over budgeted 2001-2002 levels. The State of Washington also distributes tax collections from the sale of gasoline (motor fuel excise tax). Receipts from this revenue source are also expected to remain fairly stable with budgeted revenues of \$1.4 million.

Until 1999, the State of Washington assessed an excise tax based upon the value of motor vehicles (motor vehicle excise tax). In 1999 voters approved Initiative 695, which repealed the state's motor vehicle excise tax and replaced it with a flat \$30 annual fee. This action resulted in a loss of \$900,000 of ongoing revenue to the City. In 2001, the City received \$425,000 from the State which represented a one-time payment to assist local governments in the transition from this revenue source. As this assistance was one-time only, no future distribution is anticipated.

E-911 King County dispatch resources reflect tax revenues collected from King County in support of the County-wide E-911 dispatch system. These tax revenues are assessed by King County as a tax on each phone line within the County and is distributed to jurisdictions that operate a E-911 dispatch center to help defray the costs of this service. Redmond operates a E-911 dispatch center that is used to dispatch police services. For the 2003-2004 biennium, this revenue is expected to total approximately \$111,000

each year, or \$222,000. These revenues are used by the City to support expenses associated with staffing and operating the City's emergency dispatch center. Starting in 2003 the Police Department received authorization from King County to begin using these funds to support the City's E-911 Communications Supervisor position in addition to the continued support of the City's emergency dispatch center. The City's E-911 Supervisor was formerly funded from the General Fund.

Federal/State/Local grants in 2003-2004 include \$60,000 from the State Criminal Justice Commission to support the salaries and wages for three Redmond Police Officers as part of the State's Police Corps Grant. This grant, which starts in 2003, is expected to last for three years and will end in 2005.

Intergovernmental – Revenue Source	1999-2000 Actual	2001-2002 Budget	2001-2002 Estimate	2003-2004 Budget
Fire & Emergency Services	6,160,772	7,162,249	7,521,000	8,643,202
Emergency Medical Services Levy	870,884	800,000	800,000	800,000
Fire Apparatus Maintenance	144,324	150,000	150,000	150,000
Overhead Fees – Water/Wastewater	2,348,634	2,622,784	2,622,784	2,788,047
Overhead Fees – Stormwater	923,758	1,097,490	1,097,490	1,203,333
Overhead Fees – Other	485,739	550,989	550,989	801,951
Motor Vehicle Fuel Taxes	1,327,635	1,360,000	1,350,000	1,366,000
Motor Vehicle Excise Taxes	905,633	209,416	424,675	0
Liquor Profits & Taxes	777,342	743,105	797,000	812,000
State Criminal Justice	146,473	90,000	99,000	84,000
E-911 King County Dispatch	62,866	122,000	122,000	222,000
Federal/State/Local Grants	457,540	358,132	144,029	76,000

OTHER REVENUES (\$6.4 million; \$1.2 million or 23% increase from 2001-2002 budget)

This category represents a variety of revenues including investment interest, business licensing fees, admissions taxes, fines/forfeitures, facility rental fees, licenses and permits, gaming taxes and a variety of miscellaneous revenues collected from the sale of assets and other contributions. A brief description of each of these sources is as follows:

Investment interest revenues are a reflection of the total investable City funds and the City's rate of return. For the 2003-2004 biennium, interest earnings are anticipated to decline to \$2.45 million, reflecting the recent decline in interest rates and the maturity of various City investments which were originated during a higher interest period.

Business license fees are paid by all owners of businesses licensed to operate within the City limits. Business licenses include a base fee of \$12.50 per FTE and a surcharge of \$55.00 per FTE. The surcharge supports improvements to the City's transportation infrastructure and is scheduled to expire at the end of 2004.

Admissions taxes are paid primarily by local theaters and golf courses, and are based on 5% of gross receipts. In recent years, this revenue category has grown quickly, reflecting the expansion of the Willows Run golf course and additional City theaters. Modest growth in these revenues is expected in 2003-2004.

Fines and forfeitures represent collections by the City of Redmond under a long-standing contract with the Northeast District Court. In 2000, the City entered into a revised contract with the Court. Under this revised contract, the City receives approximately 25% of revenues derived from fines, forfeits of bail, penalties, and parking tickets. For 2001-2002, revenues are estimated to total \$479,000 as payment and resolution of infractions under the original contract continue to be processed. For 2003-2004, infractions processed under the original contract are expected to decline and eventually represent a negligible portion of the Court's workload and are therefore expected to reduce revenues to approximately \$294,000.

Facility usage/rental fees represent collections from patrons reserving facilities at the various City parks or at the recently renovated Old Redmond Schoolhouse Community Center. Facility rental activity in 2001-2002 was significantly below budget due to the economic slowdown and the rise in vacant office space throughout the Puget Sound region. For 2003-2004, revenues from facility rental activities are anticipated to total \$80,000, or approximately the same as 2001-2002 estimated levels.

Licenses and permits represent fees paid for the issuance of street/curb use permits, carnivals, cabarets, and other events. For 2003-2004, revenues from these fees and permits are conservatively budgeted to total \$193,000, or approximately equal to 2001-2002 budgeted levels.

Gaming taxes are assessed against local businesses offering bingo, punchboards, pull-tabs, and card rooms. For 2003-2004, revenues from gaming activities are anticipated to total \$120,000, or about the same as 2001-2002 budgeted levels.

Other revenues are derived from the sale of fixed assets, maps and other publications; penalties assessed for delinquent business license payments; and other miscellaneous revenues.

Operating Reserve Transfer-In represents a one-time transfer of \$537,069 from the Operating Reserves Fund (see Special Revenue section) to the General Fund, reducing the reserve fund from 10% to 8.5%.

Other Revenues – Revenue Source	1999-2000 Actual	2001-2002 Budget	2001-2002 Estimate	2003-2004 Budget
Investment Interest	2,756,436	2,030,000	2,588,000	2,450,000
Business License	1,262,374	1,427,306	1,460,000	1,567,000
Admissions Tax	745,329	731,000	885,000	903,000
Fines and Forfeitures	877,723	280,209	478,600	294,000
Licenses and Permits	306,879	200,000	340,450	192,700
Facility Usage/Rental	66,075	194,000	75,500	80,000
Gaming Taxes	137,727	120,000	137,000	120,000
Other	545,313	233,000	476,153	259,000
Operating Reserves Transfer-In	-	-	-	537,069